



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Director

Oil Conservation Division

August 25, 2004

Nadel and Gussman Permian, LLC.
601 North Marienfield, Suite 508
Midland, TX 79701

Attn: Mr. Scott Germann and Mr. Kem McCready

RE: Nadel and Gussman Permian, L.L.C. well: The Zeus # 1, located in Unit E, 1809' FNL & 805' FWL (Bottom Hole Location), of Section 5 in Township 23 South, Range 28 East in Eddy County, New Mexico. API # 30-015-33154

Dear Mr. Germann and Mr. McCready,

In our phone conversation this morning, it is my understanding that your company is to submit as soon as possible with our office an operating agreement and a change of operator with Southwest Royalties for the above referenced well. This is in order to bring said well into compliance.

As was brought to my attention this morning, the Zuess #1 and Southwest Royalties' well, the Keely '5' Com # ,1 located in the northeast quarter of section 5 are producing from the Atoka formation. Additionally, both well are producing from the same pool which is the Loving; Atoka, North Gas Pool (Pool Code # 80694). NMOCD Rule 104.C.2.c permits only one operator on a 320-acre unit. I have provided for your reference a part of Rule 104 for review.

19.15.3.104 WELL SPACING
AND LOCATION:

(2) 320-Acre Spacing applies to any deep gas well in Lea, Chaves, Eddy or Roosevelt County, defined as a well that is projected to be drilled to a gas producing formation or is within a defined gas pool in the Wolfcamp or an older formation. Such well shall be located on a spacing unit consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U.S. Public Land Surveys provided that:

(a) the initial well on a 320-acre unit is located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;

(b) only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and

(c) the division-designated operator for the infill well is the same operator currently designated by the division for the initial well.

If you have any questions regarding this matter, please call me.

Respectfully yours,

Bryan G. Arrant

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Cc: Tim Gum- District Supervisor, Artesia
Jane Prouty-Systems Analysts Manager, Santa Fe
Michael Stogner-Chief Hearing Examiner, Santa Fe